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CC:	
Date:	Fri, 12/12/2014 7:31:02 PM
Subject:	Daily Update

Quote of the Day

"The biggest risk is not taking any risk... In a world that changing really quickly, the only strategy that is guaranteed to fail is not taking risks." – Mark Zuckerberg

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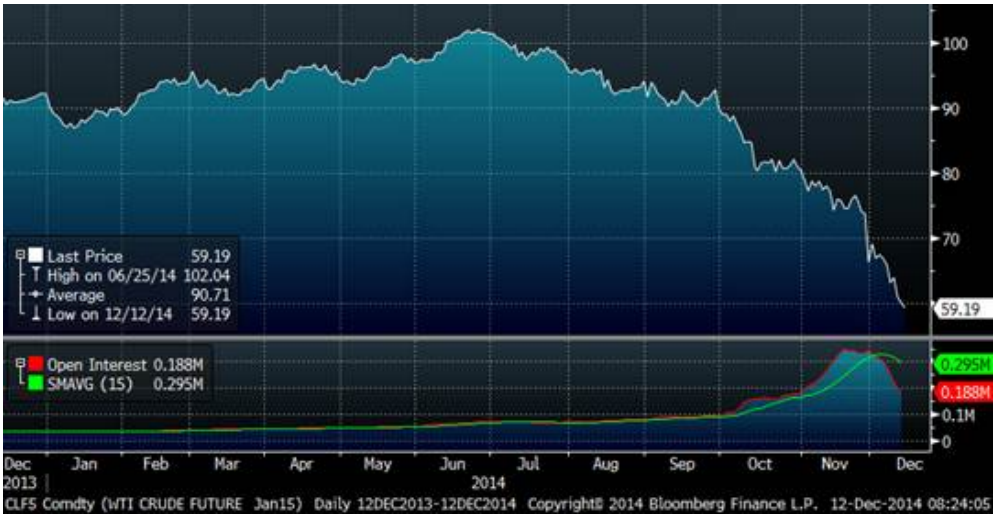
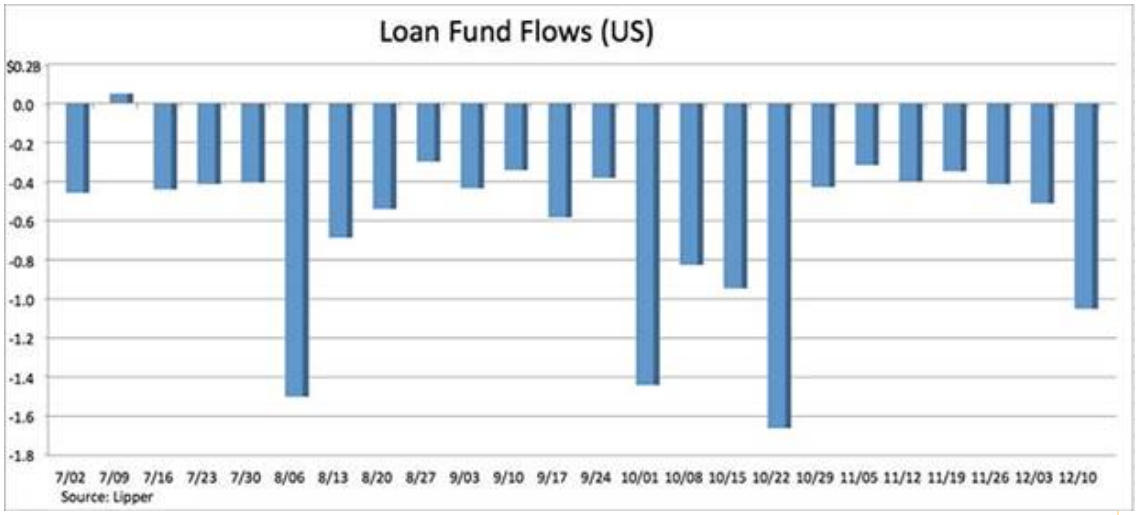
- One word. OIL. $59.05.

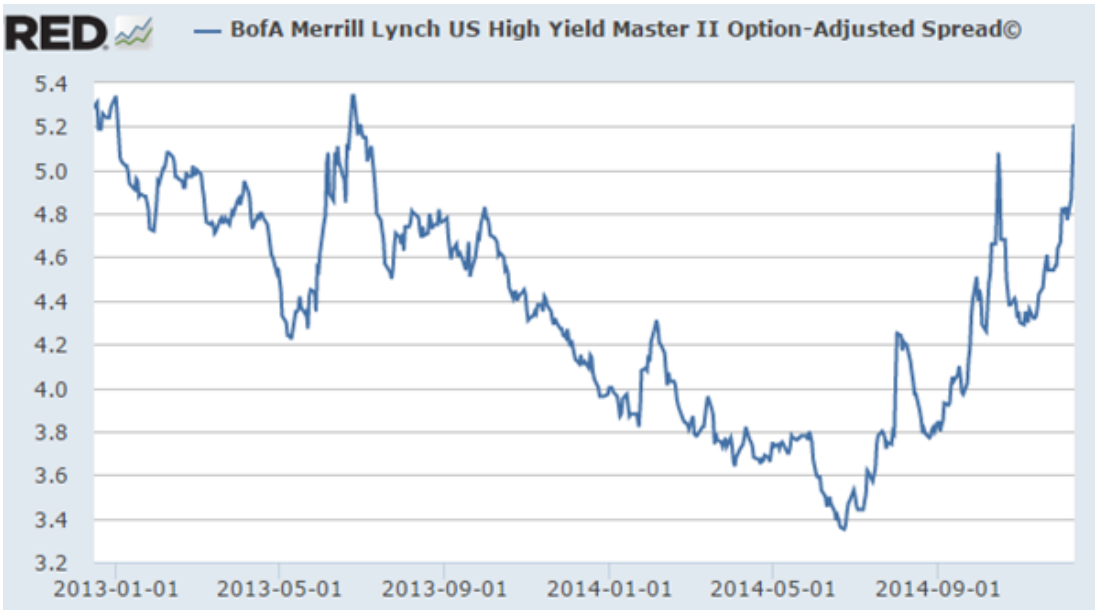


Other headlines this morning include declining inflation (again), Greece (concerns over a "renegotiation" of the country's sovereign debt), the redemptions and sell-off occurring in the high yield market and concerns over further contagion into other asset classes (this is a big one to me), articles discussing the UK leaving the EU, concerns over when and how and Congress passes a spending bill. Lots of worry in the press this morning….. One highlight from yesterday was good Retail Sales which is a good signal for the economy. Eminis: -4. 10yr: 2.14%

- Data: PPI prints at -0.2% (vs. -0.1%). Chinese retail sales rose to 11.7%% (vs. 11.5% exp)

- Credit: Ugly. The midday rally in equities yesterday did not help. Investors are heading for the exits in high yield which is spilling over to loans. There is a buyers strike occurring as we head into one of the least liquid periods of the year. Outflows continue. Loans were down another ¼+ yesterday. Back bid when you are a buyer. JPM HY Index 1.09% ytd. JPM LL index: 1.93% ytd…….





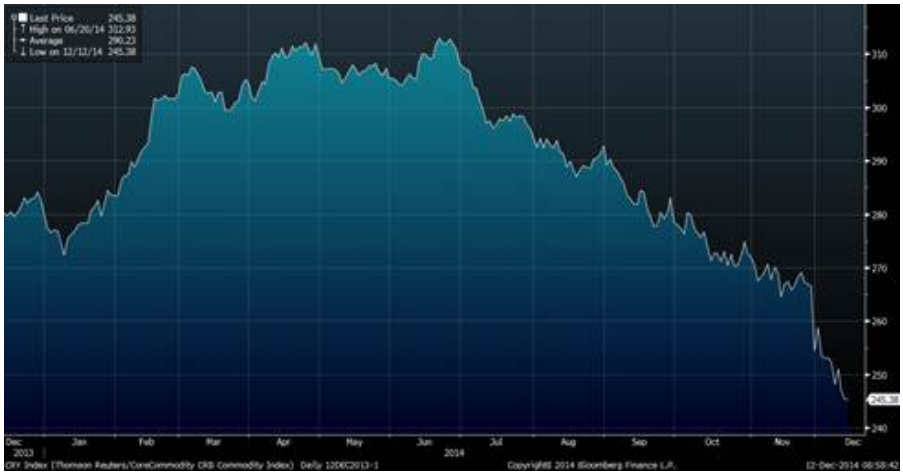
From JPMorgan this morning: **Crude and credit**

For crude the story hasn't changed – the market is suffering from a severe supply problem that won't be alleviated anytime soon. A slew of US oil companies have provided capex/output guidance for '15 lately and the message has generally been consistent: output is still heading up (albeit at a smaller rate) even as spending gets cut. Meanwhile, OPEC doesn't exert the same type of control it once did (something highlighted in this London Telegraph article. Clearly the calendar is exacerbating the oil plunge as anything associated w/crude gets puked into year-end but regardless the supply/demand dynamics just aren't favorable. What's happening in oil is having a direct effect on credit – one of the big sources of the corp. credit weakness has% been energy-linked issuers and in fact that sector seems to be in a 2007-2009 bank-like vicious cycle whereby plunging stock prices is feeding into falling bond prices and vice versa (this is esp. the case for the smaller-cap E&Ps, many of which have seen their equity values contract dramatically in the last few weeks). For weeks now stocks have been outperforming corporate credit markets and whereas before such yawing gaps would cause equity sentiment to deteriorate (something discussed in this Bloomberg article stock investors now have constructed a justification narrative. Instead of being a sign of "systemic" vulnerability that will

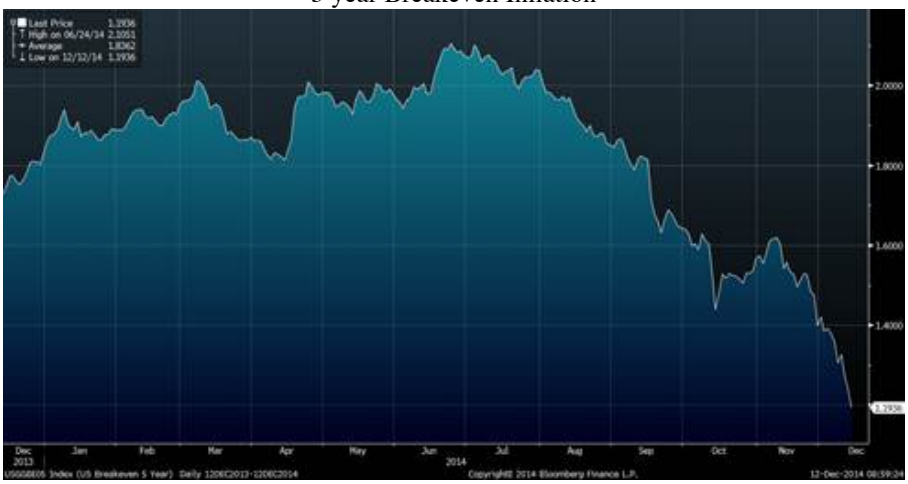
have ripple effects across financial markets and the economy (such as housing back in '06 and '07), the credit weakness now is being dismissed as "just an energy issue" (i.e. the majority of the credit pressure has been witnessed only in energy as a result of crude and doesn't seem to be spilling over into other areas). Whether this view proves inappropriately complacent remains to be seen (note that the credit selling lately goes beyond simply energy) but for now it is helping the SPX cope w/the bond selling (the Thurs retail sales number provides important evidence that consumers are beginning to spend their oil dividend, highlighting the virtuous effects of the crude turmoil).

- Charts of the Day:

Commodities

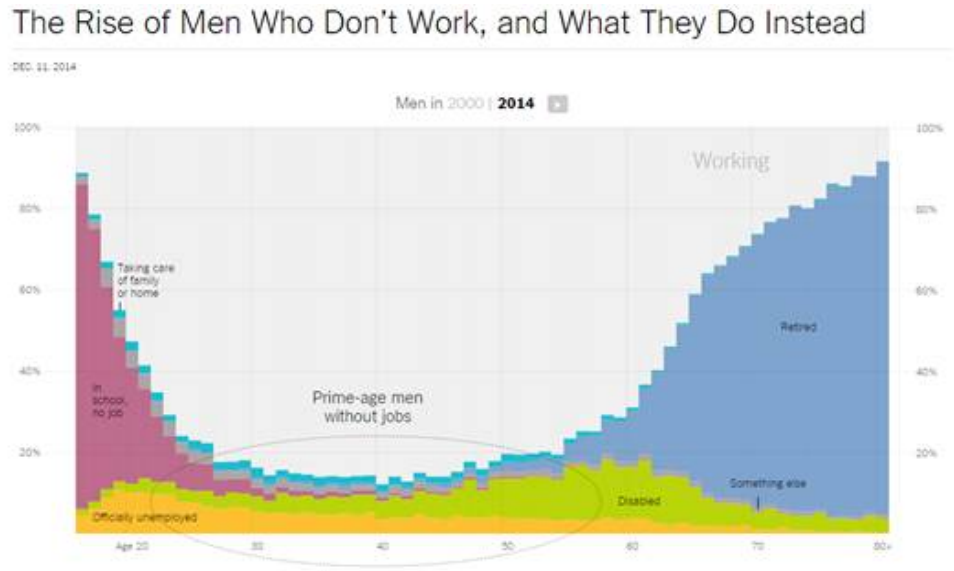


5 year Breakeven Inflation



EEM (Emerging Markets)

- Other:
    - Equities ignoring credit http://www.bloomberg.com/news/2014-12-11/stock-traders-ignoring-the-message-from-junk-bond-traders.html
    - President who vowed to end war, now seeks sweeping power to expand it http://www.washingtontimes.com/news/2014/dec/9/obama-asks-expansive-war-against-islamic-state/
    - Non-working men*:



*Footnote: Pritam Raut

- HY: 104 7/8 (-1/4)
- IG: 70 (+1.25)
- CSLLI: -1.16% mtd / 2% ytd

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